

CLUSTER COMPETITIVENESS IN PRACTICE

THE USAID BOSNIA & HERZEGOVINA CCA PROJECT

FINAL REPORT

Note: This report has been edited by USAID- certain information has been deleted.

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1. INTRODUCTION

This report reviews the strategy, actions, impact, and lessons learned of the USAID Cluster Competitiveness Activity (CCA) of Bosnia & Herzegovina, a four-year, \$16.0 million project implemented by Emerging Markets Group for the BiH mission's Economic Restructuring Office. The project ended as scheduled on July 31, 2008.

Project Objectives

CCA was the latest in a series of enterprise development projects that USAID has supported in BiH beginning in 1996. It formed part of a contemporaneous set of economic growth projects aimed at enhancing private sector development in BiH, including an agriculture sector development activity and several projects aimed at improving the policy and regulatory environment for doing business.

USAID CCA – Headline Impact:

- At least \$175 million in macro sales growth in the two sectors can be conservatively attributed to the CCA project
- Estimated 4,000 jobs created and over 12,000 sustained
- Multiple new public-private partnerships and business associations launched by CCA, including the Foreign Investors Council and the Wood Cluster Association
- Wholesale improvement in forestry law and governance; elimination of widespread corruption in the forestry sector
- Complete turnaround in negative domestic and international image of BiH as a tourist destination

CCA was aimed at supporting the expansion of two key business sectors – wood and tourism – which were pre-selected for the task order following previous expert assessments. The overall desired impact was expansion of sales, exports, and jobs in the two target sectors. Specific task order objectives were (i) cluster formation, (ii) competitiveness of firms, (iii) public-private partnerships, (iv) sustainable forest management, (v) cross-border trade, and (vi) DCA access. In broad summary, CCA worked through collaborative cluster working groups to enhance product quality and productivity in the two sectors, to widen and deepen their connections to markets, and to improve their business environment.

2. CLUSTER COMPETITIVENESS WORK STRATEGY

Competitiveness is *entirely* a firm-level attribute. When we speak of competitive clusters, competitive regions, or competitive countries, we are simply talking about different levels of aggregation of competitive individual companies. If clustering makes countries more competitive, it is only because they make their *individual business members* more competitive.

The core concept of clustering – the foundation premise – is that *an enterprise is more competitive to the extent that it works jointly with related businesses*.

To a great extent this is more than obvious: no business operates in isolation. Most joint business activities are natural, occurring through the normal process of buying, marketing, and selling. An enterprise strives on its own to be as competitive as possible, forming close relationships with its suppliers and customers. Its business is also very closely connected to its competitors, as it tries to protect its own secrets while knowing as much as it can about them. This is how business has always been done.

Beyond this, why should an individual enterprise expect that it would be more competitive by collaborating “multilaterally” in organized joint activities with related companies? If there is not a clear competitive

Rafting tourism was an example of successful inter-business linkages within the tourism cluster in BiH, supported by CCA



advantage for individual enterprises in organized joint activity, then the concept of conscious cluster work as a development tool doesn't hold water.

Michael Porter's seminal cluster work identified the cluster as a sectoral and locational creature, and set out the major attributes that made clusters more competitive. It was a groundbreaking, essentially taxonomic / descriptive presentation. Clusters were seen to evolve naturally, on their own, with little need for stimulus or assistance. While noting that "the development of well-functioning clusters is essential" for poor countries, there was only a little attention to how, as a practical matter, cluster development can be encouraged from the outside, beyond broad admonishments about the need for good business enabling environments.

However, Porter's concise description of the value of clustering to the individual firm clearly indicated pathways for effective development assistance activities:

"A cluster allows each member to benefit as *if* it had greater scale or as *if* it had joined with others formally – without requiring it to sacrifice its flexibility."¹

In other words, a cluster approach provides the best of both worlds – the creativity inherent in small-sized entrepreneurship, and the market strength gained by greater scale. Organized joint action enables individual firms, especially SMEs, to benefit from larger "virtual" size in such ways as the following:

- By collaborating with other firms in marketing, a firm can with lower expense participate in a more powerfully-branded presentation of a much wider product range to the ever-larger buyers that dominate global markets, and be of greater interest to sales agencies.
- By collaborating with other firms in research, information-gathering, and professional development, it will be able to stay abreast of latest design, quality, and technology trends at a fraction of the cost in time and money that would be required for it to do so on its own.
- By collaborating with other firms in lobbying authorities, it can have a much stronger voice and achieve attention from much higher levels in improving the policy environment for doing business compared to what it could do as one small voice.

EMG's approach to the principal CCA task order objective – enhancing the competitiveness of the wood and tourism sectors in BiH – was based on this recognition that joint action could address their greatest business challenges, while preserving their entrepreneurial diversity. At the same time, EMG's approach, with its highly commercial, market opportunities-driven focus, avoided some of the mistakes of previous cluster initiatives, which spent too much time "talking" and not enough time "walking". The cluster formation stage of CCA was accomplished quite quickly, and the remainder of the project was spent on activities that actually advanced commercial success and business environment improvement.

The CCA overall workplan was broken into two major phases: (i) mobilization and planning, which occupied approximately the first four months of the project, and (ii) implementation, which carried through the remaining 3 ½ + years. The purposes and goals of these phases are described below, and their results and lessons learned are presented in Section 3 of this report.

2.1 Mobilization & Planning

The first major objective identified in the CCA task order was to "facilitate cluster formation and development of vision, strategies, and actions for improving competitiveness". The mobilization and planning stage started immediately upon project launch in July-August 2004, with the technical

¹ Porter (1998), p. 80

assistance of multiple members of the EMG consortium for CCA. The purposes of the mobilization and planning phase were to:

- Select the BiH regions where the project would focus
- Gather together as many stakeholders as possible in the selected business sectors and regions, and introduce the concept of clustering to them
- Identify the major obstacles to competitiveness facing companies, and organize permanent working groups of stakeholders to address specific problem areas
- Demonstrate the value of inter-firm cooperation and CCA assistance by presenting business opportunities to the clusters and methods to act jointly to capture those opportunities.

“The cluster USAID has helped get off the ground is not about seeking money from donors, it’s about networking, getting to know colleagues and partners in my industry, with whom I now have new and permanent business relationships for inputs and especially expertise.” *Semir Sivro, Owner, SAAF Furniture, Zenica*

2.1.1 Selection of Regions

In early strategy formulation sessions with USAID-BiH and BiH counterparts, it was agreed that in order to deepen impact, CCA should focus its efforts on selected subregions of the country in each of the two business sectors, rather than the entire country. Furthermore, these regions would coincide with some of the five covering BiH that had been defined by the EU-supported Regional Economic Development project (EU-RED), with which the Mission had consulted in setting up CCA. The Regional Development Agencies (RDAs) that EU-RED had set up could be operational partners in the selected CCA subregions.

After review and assessment, the following regional clusters were planned:

Wood Processing & Forestry:

- *Central Bosnia & Herzegovina:* centered in Zenica, covering the Federation (FBiH) cantons of Zenica-Doboj and Middle BiH; later this cluster was expanded into Sarajevo and Tuzla Cantons
- *Northwest Bosnia & Herzegovina:* centered in Bihać, covering Una-Sana Canton
- *Banja Luka:* covering the northern wing of Republika Srpska (RS).

Tourism:

- *Herzegovina:* centered in Mostar, spanning the southern part of the RS and the FBiH cantons of Herzegovina-Neretva and Western Herzegovina
- *Krajina:* centered in Bihać and Banja Luka, covering the FBiH Una-Sana Canton and northern RS
- *Sarajevo:* covering Sarajevo and its environs.

Later, after these regional clusters were consolidated, CCA initiated cluster work at the BiH state (national) level, since many issues for the economic development of both the tourism and wood sectors needed to be addressed for the entire country. In wood processing & forestry, CCA successfully launched a permanently-registered BiH Wood Cluster Association at the state level. In tourism, CCA catalyzed the creation of the cross-governmental Tourism Working Group, which functions as the senior government institution for tourism policy development, and strengthened the BiH Tourism Association, moving it in the needed direction of becoming a national tourism organization (NTO) for Bosnia & Herzegovina..

2.1.2 Cluster Mobilization Conferences and Working Group Formation

Stakeholders included:

- Private companies
- Public corporations
- Government agencies
- Other donors and NGOs
- Educational institutions
- Banks
- Business associations

For the six regional clusters selected, CCA identified key stakeholders and organized large cluster mobilization conferences. At these all-day conferences CCA staff and EMG consortium consultants surveyed markets and opportunities vis-à-vis BiH wood and tourism products and services (actual and potential), facilitated participatory discussions to cause stakeholders to identify major obstacles to the regional sector's competitiveness, and then formed breakout groups to prioritize issues and begin the process of developing action plans to address obstacles and opportunities. These cluster conference

breakout groups became the foundation for permanent subject-area working groups that endured throughout the life of the project and beyond.

While there was some variation, the competitiveness obstacles coalesced around the following sets of issues:

<u>Wood Processing & Forestry</u>	<u>Tourism</u>
<ul style="list-style-type: none"> – Access to Raw Materials – Access to Finance – Connection to Markets – Product Design & Quality – Human Resources – Technology 	<ul style="list-style-type: none"> – Quality and Range of Offer – Promotion & Connection to Global Markets – Workforce Training & Certification – Infrastructure – Environment

CCA's work through the remainder of the project was based on the issues identified in these introductory sessions. A subset of key individuals representing company and institutional stakeholders bought in strongly to the cluster concept at these initial conferences, and committed themselves to the subject-area working groups established there. They subsequently led action planning and implementation throughout CCA's life. All of the activities that CCA proceeded to support, throughout the project, derived from this important mobilization and planning stage.

Table 1: Cluster Mobilization – Major Results

- Creation of 6 regional clusters, 3 in each of the two sectors, with committed core stakeholder groups to carry forward joint efforts
- Creation of registered BiH state-level Wood Cluster Association (WCA)
- Creation of BiH state-level Tourism Working Group and strengthening of BiH Tourism Association
- 36 task area working groups formed, many of which continued beyond project-end
- 872 stakeholders associated with these clusters by project-end
- "Micro-clusters" formed within both sectors, consisting of subsets of cluster firms with related products or services
- Forward-rolling action planning processes implemented, with activities ranging from "quick-start" to long-term strategies.

One self-standing benefit of clustering is the person-to-person networking it encourages among cluster participants. CCA observed many examples and heard numerous testimonials of real

business linkages among BiH companies created simply because businesspeople came together, met, and discussed their mutual needs. This benefit far outlasts outside cluster support.

2.2 Implementation

CCA found that all of the key issues identified during the mobilization and planning stage could be organized under the three broad competitiveness focus areas that EMG employs for enterprise development projects:

- (i) *Product and Productivity*, covering all influences on the design, quality, price, and delivery of the product itself
- (ii) *Connection to Markets*, covering the image, profile, and promotion of the product in target markets, and the ability of firms to access buyers in those markets, and
- (iii) *Business Environment*, covering government regulation affecting the ability of firms freely to operate their businesses within and outside BiH, and public policy supporting business development

Within each of these competitiveness focus areas CCA defined subcategories customized to the BiH environment, in keeping with the obstacles identified by stakeholders. For all cases, five types of activities were defined. The following table comprehensively outlines the organizational structure of CCA's work.

Table 2: Organization of CCA Work Activities		
Competitiveness Area	Subcategory	Expected Results
I. Product & Productivity	<ol style="list-style-type: none"> 1. Design & quality standards 2. Technology 3. Business finance 4. Workforce development 5. Producer networking 	<ul style="list-style-type: none"> • Enhanced design for higher-value markets • Improved product / service quality and productivity from better technology • Increased availability of working capital and equipment finance • Advanced skills of existing workforce; well-trained new entries • Increased business, exchange of expertise, joint operations among cluster members
II. Linking to Markets	<ol style="list-style-type: none"> 6. Buyer connections 7. Trade shows 8. Image, branding, & marketing 	<ul style="list-style-type: none"> • Wider network of buyers in western markets • Stronger communication of market trends and requirements back to producers / service providers • Greater attendance, improved presentation at trade shows, more business from them • Improved BiH country and product group brands; better marketing of BiH overall for sourcing and investment
III. Business Environment	<ol style="list-style-type: none"> 9. Governance & regulation 10. Development policy 	<ul style="list-style-type: none"> • Improved, transparent, and streamlined institutional governance of target sectors • Established consensus policies for

<i>Table 2: Organization of CCA Work Activities</i>		
Competitiveness Area	Subcategory	Expected Results
		development support for targeted sectors

The basic unit of CCA's work in pursuit of task order objectives was the "Activity", which fell into one (or more) of the competitiveness areas and subcategories. All activities were of one of the five types shown in the third column of the table. Thus, for example, attending an international trade show would be an "event" Activity Type, in Subcategory #7 (trade show attendance), under Competitiveness Area II (linking to markets), while a professional certification activity would be a "training" Activity Type under Subcategory #4 (workforce development) in Competitiveness Area I (product & productivity).

The process for origination, approval, and implementation, and reporting of activities was highly organized. Every activity started out as an "Activity Approval Request", essentially a numbered work order, which was originated by a member of either the wood or tourism cluster technical team, and entered into the CCA Activities Database, where all activities were tracked (see box). The activity entry form in the database also served to record all required approvals for activities and any associated grants or procurements, as well as CCA and partner investments and activity results.

Staff personnel were organized into two technical teams – one for wood processing & forestry and one for tourism – and an administrative unit. Approximately two-thirds of the staff were located in the Sarajevo head office, and one third in Banja Luka. CCA also occupied a desk at the USAID LAMP project's office in Mostar.

With this structure of technical and administrative organization, the CCA project was implemented. The following section discusses its results.

The **CCA Activities Database** was designed by EMG as a workflow management and reporting tool for CCA. It was built on two basic input sets: (i) stakeholders, and (ii) activities. Each activity was defined according to sector, competitiveness category, and type, and was linked to a group of stakeholders, who were in turn defined according to organization type, participant gender, membership in business associations, and other attributes of interest for reporting. At project close the database contained 369 completed activities – approximately 8 every month for the 48 months of the project – and 872 stakeholders.

3. ACTIVITY IMPACT: CCA

EXPERIENCES & LESSONS LEARNED

In this section, we present results of competitiveness-promotion activities in the two clusters, in narrative overview and tabular detail, followed by a discussion of challenges and lessons learned. At the end of this report are a series of “Activity Impact Reports” that describe specific grouped activities addressing key objectives – how the activities originated, what they consisted of, and their qualitative and quantitative results.

3.1 Tourism

3.1.1 Tourism Cluster Description

The following table provides a breakdown of membership of the three regional tourism clusters that CCA established:

<i>Table 3: Tourism Cluster Membership Statistics</i>	
Tourism Companies	208
Associations	73
Media	14
Educational Institutions	8
Financial Institutions	4
Government Agencies	87
International Organizations	24
Total Tourism Stakeholders	418

The following working groups, public-private partnerships, and institutionalized events were established in tourism:

<i>Table 4: Institutionalized Working Groups, PPPs, and Conferences – Tourism Cluster</i>			
Herzegovina	Krajina	Sarajevo	BiH
<ul style="list-style-type: none"> • Infrastructure WG • Media in Tourism WG • Environment WG • Education WG • Product Development WG • Herzegovina Region Tourism Working Group • Počitelj Management Plan Working Group 	<ul style="list-style-type: none"> • Product Development & Promotion WG • Education WG • Regional Linkages WG • Policy WG 	<ul style="list-style-type: none"> • Short Breaks Product Group • Sarajevo Million Visitors Conference • Bašćaršija Business Improvement District (<i>formally registered</i>) 	<ul style="list-style-type: none"> • Tourism Working Group • Environmental Cleanliness Advisory Group • Tourism Statistics Working Group • BiH Branding & Marketing Working Group • Four Rivers Rafting Group

The main institutional partners of the tourism cluster were:

Table 5: Key Institutional Partners – Tourism Cluster

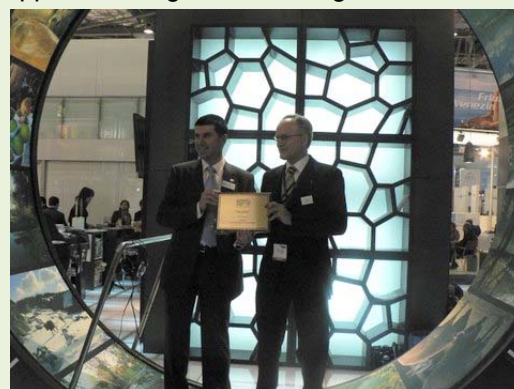
- Tourism Association in BiH (TUBiH), Tourism Organization RS (TORS), FBiH Tourism Community; and Sarajevo, Herzegovina-Neretva, Western Herzegovina and Una-Sana Canton Tourism Associations
- BiH Tourism Working Group (Ministry for Foreign Trade and Economic Relations (MOFTER), RS Ministry of Tourism & Trade, FBiH Ministry of Tourism & Environment)
- Tourism Statistics Working Group (BiH, RS, and FBiH statistics bureaus)
- Ministry of Foreign Affairs – Department of Economic Diplomacy
- RS Ministry of Environment
- FBiH Ministry for Culture & Sports
- FIPA – Foreign Investment Promotion Agency
- Foreign Trade Chamber of Commerce
- Una-Sana Canton Chamber of Commerce
- SERDA Regional Development Association (Sarajevo)
- REDAH – Regional Development Agency (Herzegovina)
- BiH Commission for the Protection of National Monuments
- UTA BiH – Travel Agency Association of BiH
- UHIR – Association of Hotels and Restaurants BiH
- Agency for Culture, Information, Sport and Tourism of Eastern Herzegovina
- BiHPAK – Consumer Product Packagers Association
- Foreign Investors Council
- Tourism Donors Advisory Group (U.S., British, French, Austrian, and Japanese Embassy commercial offices)

3.1.2 Tourism Results Overview

The broadest way of summarizing the impact of the CCA project on the BiH tourism sector is to say that it was largely responsible for moving tourism from a position of broad general cynicism about Bosnia as a serious tourism destination, to its current position, where it is now widely regarded as one of the most, if not the most promising sector for economic growth of BiH. Senior government officials now regularly cite tourism as one of the country's top three sectors for economic growth. BiH is now often noted in international travel and tourism media. This remarkable turnaround in perception is clearly evidenced by the enormous increase over the past 4 years in entity budgetary resources devoted to tourism (from some KM 3 million in 2004 to over KM 24 million planned for 2008). The improved perception is due in large part to activities that CCA catalyzed and supported to meet the project's objectives. Summarizing, these activities aimed to:

- Create wide domestic public awareness of the economic value of tourism

The BiH Tourism Association accepts a top award at the first BiH attendance at the London World Travel Mart, in 2007. CCA supported design and building of the stand.



- Improve the external image of BiH as a normal tourism destination
- Operationally connect BiH to the global tourism market.

Now the industry has actually run ahead of the BiH legal and institutional system in which the industry operates. When, in the latter stages of the project, the BiH state government finally requested assistance in this area, CCA immediately responded to help frame and draft tourism law, harmonized with international standards and certification systems. This work was ongoing at the end of the project, and the technical advisor that CCA had brought in was engaged by MOFTER to continue it. Once finished, BiH will be fully prepared to be a successful global tourism player.

The following table presents trends in BiH tourism, based on official data:

<i>Table 6: Foreign Tourist Arrivals – Official Data</i>					
	2004	2005	2006	2007	2008*
Foreign Tourist Arrivals 000	218	213	250	300	370
<i>Growth</i>		2.1%	17.5%	19.8%	23.5%
Foreign Tourist Overnights 000	459	474	585	683	925
<i>Overnights / Arrival</i>	2.1	2.2	2.3	2.3	2.5

- First half data, annualized

According to these official data, foreign tourist arrivals have grown by 70% since the project began, and foreign tourist overnights have doubled as average length of stay increased somewhat. However, research by CCA demonstrated that the official statistics *far* underestimate actual foreign tourist arrivals.² Since they are based on voluntary reports by registered tourist accommodations, (i) they fail to capture diaspora tourists (who stay with relatives) and day trip tourists (who don't stay in overnight accommodations), and (ii) they are subject to substantial under-reporting (due to tax avoidance). Using highly conservative assumptions, CCA research provided the following estimate for 2007, indicating that actual foreign tourist arrivals are almost five times the officially-reported statistics:

<i>Table 7: Foreign Tourist Arrivals – CCA Estimate</i>	
	2007
<u>Leisure Tourists</u>	436,000
Overnight	201,000
Day Trips	235,000
<u>Business Tourists</u>	103,000
<u>Religious Tourists</u>	378,000
Overnight	262,000
Day Trips	116,000
<u>Diaspora</u>	498,000
TOTAL	1,415,000

Meanwhile, the World Travel & Tourism Council (WTTC), which annually assesses the size of countries' tourism economies, estimates that approximately 8% of employment in BiH, or 95,000 people, are engaged directly and indirectly in the travel & tourism economy, whose aggregate size

² King and Čar (2008)

is estimated at KM 2.3 billion, or just over 10% of GDP.³ Based on these figures we can analyze the possible contribution of the USAID CCA investment to BiH economic growth.

As further detailed below, CCA was instrumental in at least doubling (to about one-third) the share of the BiH public who view tourism as the sector with the greatest economic potential and in publicly prioritizing anti-litter campaigning, in creating national-level tourism strategy planning, in multiplying government budgetary support for tourism, in dramatically improving the image of BiH as a tourism destination, and in prominently launching BiH for first time at the most critical annual trade show for the global tourism industry, the World Tourism Market (WTM) in London. Adding to these major nationwide projects the many additional activities undertaken by CCA to improve the BiH tourism product and connect BiH tourism to world markets, it is quite conservative to attribute to USAID's investment *at least one-tenth* of the total growth in the BiH travel & tourism economy over the past four years.

Table 8: Estimated Contribution of CCA to Macro Business Results - Tourism			
	Sales \$ MM	Exports \$MM	Employment
T&T Economy 2008 (WTTC)	1,640	985	95,000
Aggregate increase since 2004*	1,240	740	31,660
Increase attributable to USAID CCA Investment**	\$124 million	\$74 million	3,170 jobs
USAID CCA total investment allocable to Tourism Sector = \$8.5 million			
Results : Investment Ratios	14.5x	8.8x	\$2700 per job

* Assumed 10% per annum growth in T&T economy over the 4-year period - conservative, given average 17.5% per annum growth in official tourism arrivals. For comparison to aggregate USAID investment over four years, sales and exports numbers are sum of all four per annum increases. For employment, increase is 2008 minus 2004 level.

** Estimated 10% of total increase

On this basis the approximately \$8.5 million USAID CCA investment in tourism competitiveness achieved at least \$124 million in additional sales over the life of the project (more than a 14 times investment multiple⁴), \$74 million in aggregate export business (four times investment), and almost 3,200 jobs for an investment of about \$2700 per job.

Many key stakeholders in BiH would give USAID CCA far more credit (see box). Considering all direct and indirect influences, it is not unreasonable to credit as much as one-third of the growth of the BiH T&T economy over the past four years CCA. In this case the USAID investment will have produced over \$150

"The USAID CCA has been by far the most important positive influence over the last four years in the BiH tourism sector. Virtually all of the major strategic advances that BiH tourism has accomplished in recent years have been thanks to USAID CCA." *Hamza Ajanovic, Assistant Minister for Tourism, BiH Ministry of Foreign Trade & Economic Relations*

³ WTTC (2008)

⁴ This can be compared to the oft-cited assessment of the USAID Sri Lanka cluster project's 10:1 multiple of investment (Bolnick 2003)

million in sales, \$100 million in exports, and almost 10,000 jobs, on its own reducing the BiH unemployment rate by close to one percentage point.

The following table supports this level of attribution by providing examples of micro-level business results data gathered from key CCA tourism cluster stakeholders, showing substantial growth by private sector tourism services providers that worked closely with CCA, whose growth has been substantially greater than that of the industry at large:

Company	2004 Business Level	2008 Business Level
Green Visions (tour operator)	5500 tourists in all tour programs	32,000 tourists served
Zepter Passport (incoming tourist agent)	1000 incoming foreign tourists in all tour programs	8,000 incoming foreign tourists served
Four Rivers Rafting Group (micro-cluster)	12,000 tourists served	62,000 tourists served

Finally by way of overview, CCA was instrumental in establishing key high-level permanent collaborative working groups that will outlive the project and sustain and magnify its impact.

- *Tourism Working Group (TWG)*, the only cross-governmental official body to plan and harmonize tourism development policy for BiH as a whole, established at CCA's initiative and now fully "owned" by the represented state and entity ministries and meeting regularly
- *Tourism Statistics Working Group*, a cross-governmental official body focused on harmonizing and improving tourism statistics, established at CCA's initiative, now formally constituted
- *Herzegovina Tourism Coordination Group*, a body representing tourism associations from across western BiH, established with CCA's support, and meeting regularly to collaborate on regionwide tourism product improvement and marketing
- *Bašaršija Business Improvement District (BBID)*, a private business association focused on improving the attractiveness of Sarajevo's Old Town to tourists, established at CCA's initiative and now formally registered
- *BiH Tourism Association (TUBiH)*, the previously existing BiH State-level tourism association which CCA strove throughout its term to transform into the true National Tourism Organization (NTO) that the country needs. By project end, through USAID, the TWG and TUBiH formally committed to: (i) properly constitute the management board of the association, (ii) hire a full-time executive director, and (iii) properly finance the organization with a permanent budget line item.

Along with the revolution in perception of BiH tourism, the building of these institutions was the greatest legacy of the CCA project in this sector.

3.1.3 Activity Impact By Work Area: Tourism

The following table summarizes the major activity areas of CCA's support for tourism, their outputs, and their impact.

Table 9: Tourism Competitiveness – Major Results		
Activity Areas	Output	Impact
I. PRODUCT & PRODUCTIVITY		
1. Improvement of tourism	38 activities for physical	World-standard tourism product

Table 9: Tourism Competitiveness – Major Results

Activity Areas	Output	Impact
product	improvement of individual tourism sites; Sarajevo and Mostar tourist signage; Sarajevo “In-and-Out” center	quality
2. Promotion of tourism product packaging	4 BiH tour operators with marketable general and niche tourism product packages	Organized 3- and 5-day tours, addressing Western Europe generating market trends (“Citybreaks” etc.)
3. Tourism site governance & management	Počitelj Management Plan	Pilot project for best practices cultural site governance; precursor for UNESCO World Heritage Site designation
4. Tourism workforce certification	International certification courses for outdoor tourism professionals (rafting, mountain guides)	Global trade standards achieved
II. LINKING TO MARKETS		
5. Market connections	Presence at key regional and global tourism trade fairs; world-class trade show stand; improved marketing materials; travel guides; 7 major B2B events; promotion of airlift; network of Western tour operators	Established profile on global markets of BiH as prime tourist destination; reliable expanded marketing
6. Tourism ICT	Online review, reservation, and transactions strategy; <i>Sarajevo Navigator</i> online	Essential tourism information media
7. BiH image improvement and promotion	“Enjoy Life” video series; unified BiH tourism logo; branding and marketing strategy	Reversal of negative image of BiH to prospective tourists; strategy consensus for country marketing strategy
III. BUSINESS ENVIRONMENT		
8. Domestic public awareness	“Tourism Enriches” campaign, “Clean is Beautiful” campaign	Improved tourism policy and governance; improved tourism products and services; improved care for tourism environment; 8x expansion of government budget support for tourism
9. Tourism policy	Establishment of Tourism Working Group; First BiH tourism law drafted; tourism statistics improved	Guiding institutional and framework for BiH tourism development; elevation and focus of budgetary importance

Based on a line-by-line record of the results of approximately 200 activities in support of tourism competitiveness, the following summarizes key *output* results statistics that were contained in the CCA task order and subsequent requirements for “F Indicator” reporting.

<i>Table 10: Key CCA Project Output Results Statistics Totals - Tourism</i>		
Results Indicator	Unit	Value
Activities	# events, assignments, reports, trainings	177
Individual Participants	# people – total all activities	3,198
Gender	% female participants – all activities	30%
Stakeholder Participants	# companies, institutions – total all activities	1,803
CCA Investment	KM	2,411,700
Partners Investment	KM	3,131,300
Publications / brochures / flyers	# copies	576,500
Public-Private Partnerships / Dialog Mechanisms	% of total activities	40%
Public Awareness / Press Coverage	% total activities / avg % public reached	46% / 9%
Stakeholders with Improved Management Practices	# activities / # companies, institutions participating	63 / 652
Stakeholders with Improved Technology		23 / 222
Stakeholders joining Business Associations	# companies	24
Trained in Quality & Operating Standards	# activities / # individuals participating	66 / 2,016
Trained in Hospitality & Customer Service		68 / 1,785
Trained in Pursuing Niche Markets		71 / 1,631
Promotion of Religious Heritage		32 / 383
Promotion of Family Visits		46 / 540
Promotion of Airline Services		14 / 238

These results indicate extensive industry participation in and reach of CCA activities, supporting our conservative estimates as to the scale of attribution of the project's results.

At the end of this report are four tourism-related “Activity Impact Reports” covering the following subjects, each including a range of activities that CCA supported to improve the competitiveness of the BiH tourism sector:

- Rafting Tourism
- Tourism Image and Branding
- Tourism Market Linkages
- Tourism Public Awareness

3.2 Wood Processing & Forestry

3.2.1 Wood Processing & Forestry Cluster Description

The following table provides a breakdown of membership of the three regional WP&F clusters that CCA established:

<i>Table 11: Wood Cluster Membership Statistics</i>	
Production Companies	243
Business Service Companies	32
Associations	19
Educational Institutions	15
Financial Institutions	9
Government Agencies	49
International Organizations	12
Total Wood Cluster Stakeholders	379

The following working groups, public-private partnerships, and institutionalized events were established in wood processing & forestry:

<i>Table 12: Institutionalized Working Groups, PPPs, and Conferences – Wood Cluster</i>			
Central BiH	Northwest BiH	Banja Luka	BiH
<ul style="list-style-type: none"> • Access to Capital WG • Quality & New Technologies WG • Education WG • Marketing WG • Forestry & Log Supply WG • Annual Regional Cluster Conference 	<ul style="list-style-type: none"> • Access to Capital WG • Raw Materials Supply WG • Access to Export Markets WG • Trade Policy WG • Annual Regional Cluster Conference 	<ul style="list-style-type: none"> • Raw Materials Supply WG • Access to Capital WG • Human Resources WG • Access to Export Markets WG 	<ul style="list-style-type: none"> • Action Plan against Illegal Logging • Joint Forestry Conference • Wood Products Export Agents Network • BiH Annual Wood Convention and Export B2B (<i>initial Mar-08</i>) • SE Europe Wood Clusters Group

The main institutional partners of the WP&F cluster were:

<i>Table 13: Key Institutional Partners – Wood Cluster</i>
<ul style="list-style-type: none"> • BiH Foreign Trade Chamber • RS, FBiH, & Cantonal Ministries of Agriculture, Forestry, & Water Management • FBiH & RS Ministries of Economy • FBiH Ministry of Development, Entrepreneurship and Crafts

Table 13: Key Institutional Partners – Wood Cluster

- Forestry Management Companies of Sarajevo Canton, Zenica-Doboj Canton, Una-Sana Canton, Middle Bosnia Canton, and Tuzla Canton
- University of Zenica, Mechanical Faculty and Technology Center
- University of Sarajevo Faculties of Forestry and Mechanical Engineering
- Sarajevo Academy of Arts
- Una-Sana Canton Chamber of Commerce (*regional cluster management partner*)
- Tuzla Canton Chamber of Commerce
- Tuzla Canton Chamber of Crafts
- Sarajevo Canton Chamber of Commerce
- REZ Regional Development Association (Zenica) (*regional cluster management partner*)
- SERDA Regional Development Association (Sarajevo)
- Four “Micro-clusters”: Beyler, Avenija, Bosnian Beech, Bosanska Krupa
- Foreign Investors Council
- World Bank FDCP PIUs (Sarajevo and Banja Luka)
- BiH Wood Cluster Association

3.2.2 Wood Sector Competitiveness Results Overview

CCA’s activities in support of wood sector competitiveness focused on the following major objectives:

- Replacing widespread corruption and illegality in forestry with transparent and professional forest management, in order to open up access to raw materials to the most competitive wood processors
- Substantially expanding value-added wood production while improving design and quality consistency
- Building sustainable export market connections infrastructure for lasting relationships with a wide range of good international buyers.

The long wood industry tradition in the country, based on its rich forests, was the basis for USAID’s choosing the sector for support. However, at project outset wood products design was assessed as mostly mediocre, quality generally inconsistent, trade fair presentation poor and participation limited, and penetration to buyers through established industry marketing channels quite low. Value-added products composed less than one-third of total wood sector exports. Furthermore, illegal logging was widespread and sawlog allocation highly corrupt, so that access to raw materials was difficult for new growing companies not willing to involve themselves in such activities.

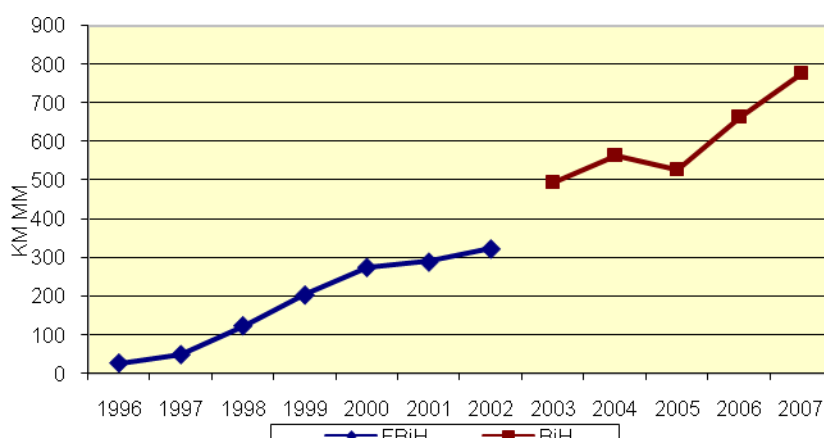
Indeed, as a result of these weaknesses, the strong recovery in the late 90s in the growth of wood

CCA helped improve forestry governance in BiH by supporting restructured forestry governance and law, transparent sawlog sales procedures, and preparation for forest certification.



exports, which had fallen to virtually zero by the end of the war, had slowed considerably prior to the launch of USAID CCA. The following charts show the trends in BiH wood products exports over the past decade:

Figure 1: BiH Wood Products Exports



As can be seen, the slowdown in wood sector exports growth in the four years prior to the CCA project gave way to a very sharp acceleration by midway through the project.⁵ It is reasonable to attribute a share of this improvement to USAID's investment in CCA, as its activities began to have an effect.

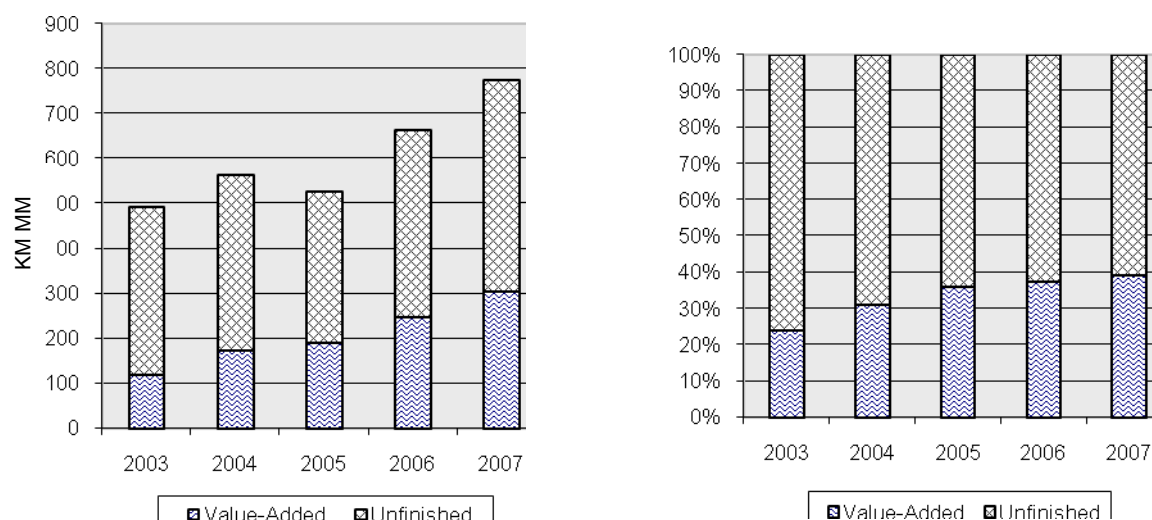
The following table shows BiH wood exports growth through the last full calendar year of the CCA project:

Table 14: Exports – Total BiH Wood Sector				
KM MM	2004	2005	2006	2007
Primary Wood Products	390	338	414	472
Growth		-13.2%	22.3%	14.2%
Value-Added Wood Products	174	189	248	302
Growth		8.5%	31.1%	22.0%
VA / Total Exports	31%	26%	37%	39%
Total Exports	564	527	662	775
Growth		-6.5%	25.4%	17.1%

Meanwhile, as total exports were rising strongly, the proportion of value-added exports in total exports rose as well, by some 10 percentage points over the life of the project, and almost tripled in total value:

⁵ The chart has to be divided in two because statistics on wood exports were available only from the Federation prior to 2003.

Figure 2: BiH Total and Value-Added Wood Exports



CCA carried out two surveys of wood cluster members to gauge their performance and to compare it to the industry at large. The first was done in July 2007, eliciting responses from 35 companies, of whom 31 were SMEs, and provided the following results:

Table 15: Business Results – Wood Cluster Survey 1					
	2004	2005	2006	2007 proj	
Sales	KM MM	126.0	131.0	160.2	173.3
Exports	KM MM	40.7	42.9	57.2	73.5
Exports / Sales		32%	33%	36%	42%
Employment		3,326	3,395	3,559	3,901
<u>Growth Rates</u>					
Sales		4.0%	22.3%	8.2%	
Exports		5.2%	33.5%	28.4%	
Employment		2.1%	4.8%	9.6%	
Productivity		1.9%	16.7%	-1.3%	
<u>SMEs Only</u>					
Sales Growth		11.2%	39.1%	28.4%	
Exports Growth		5.5%	63.5%	39.1%	
Exports / Sales	59%	56%	66%	72%	
Employment Growth		4.3%	13.3%	23.0%	
Productivity Growth		6.5%	22.8%	4.4%	

This survey showed that the business results of companies in the CCA-initiated wood cluster – sales, exports, productivity, and employment – surged as of the second year of the project, and that

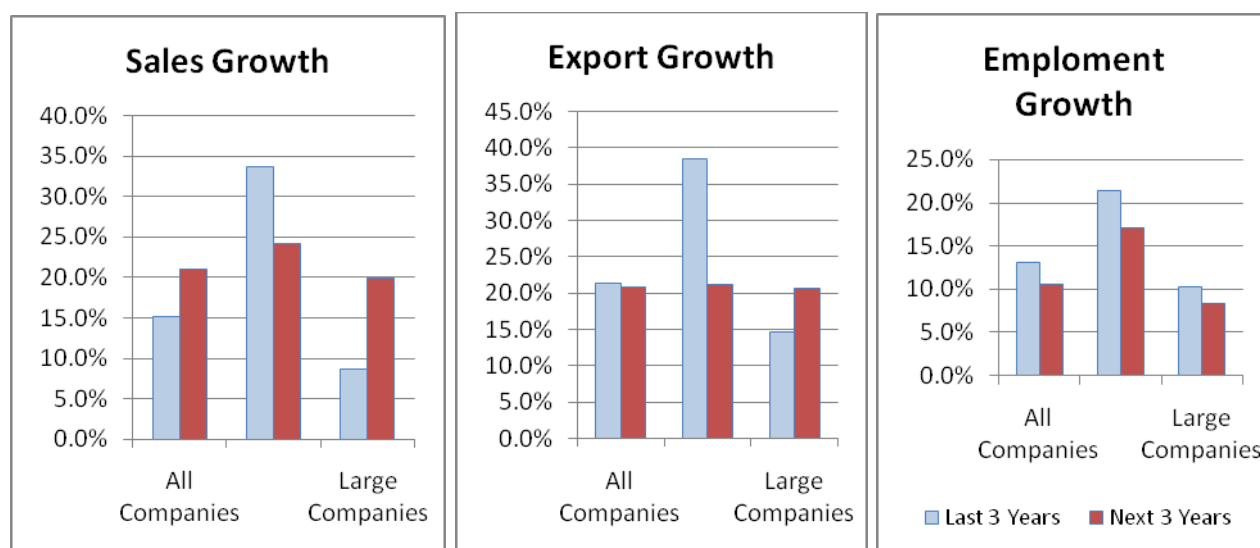
the most important contributors to this strong performance improvement were SMEs producing value-added wood products.

The second cluster business results survey was carried out at the end of the project (June 2008) using a different questionnaire method designed to elicit the greatest possible response. The table below shows the current aggregate levels of sales, exports, and employment for the 64 cluster companies who responded, of which 13 were large companies and 51 were SMEs.

<i>Table 16: Business Results – Wood Cluster Survey 2</i>				
		All Cos	SMEs	Large Cos
# of Companies		64	51	13
Current Levels				
Sales	<i>KM MM</i>	325,250	84,250	241,000
Exports	<i>KM MM</i>	142,550	39,450	103,100
Employment		4,260	1,070	3,190

The following charts show average annual growth rates for the cluster companies in each case for the last three years in sales, exports, and employment (light shading), and growth rates of these variables expected by firms for the next three years (dark shading), broken down by all companies, SMEs, and large companies.

Figure 3: Business Results – Wood Cluster Survey 2



This survey covered 64 value added producers, and at approximately KM 143 million, the cluster sample accounted for almost half of total BiH value-added wood exports. For all companies, growth has been substantial in all categories and is expected to continue. Again, however, SME performance is the stronger. Cluster SMEs exports have grown on average almost 40% per annum over the past three years, during the CCA project, and are expected to continue to grow very strongly – over 20% per annum – over the coming three years. Total cluster employment growth is projected to continue at over 10% per annum, but the 51 cluster SMEs participating in the project, whose annual employment growth was well over 20% for the past three years, will continue at greater than 15% over the next three.

It is also noteworthy that though expected export growth remains high for all companies, expected total sales growth is actually expected to increase, suggesting that companies are optimistic about domestic economic growth in BiH, the result of consolidating private sector development fostered by the range of USAID and other donor projects to improve the wider doing business environment.

The remarkable performance of SMEs shown in both surveys is consistent with successful application of the cluster model, which encourages networking in product line development and joint action in promotion and marketing. By presenting a wider integrated product range and a large unified footprint at trade shows and through sales agent channels, clustering allows SMEs

“I make a high-end product that should have a good market in Western Europe, but as small SME I cannot afford a prominent stand at international trade shows. The beautiful joint stand that USAID CCA has provided the cluster has given me an opportunity to be seen in a prominent location by the best buyers, which I would never have been able to achieve on my own. I will always be an enthusiastic member of the BiH wood cluster that USAID has done so much to support.” *Fadil Čostović, Owner & Technical Director, Artisan Tešanj*

as a group successfully to respond to market trends toward increased buyer size, consolidated supply chains, and preferred supplier arrangements.

CCA's "Best of Bosnia" trade show strategy provided an opportunity for cluster SMEs to exhibit in a seamless, integrated presentation with complementary companies, creating a much stronger market impact than they could have achieved individually. Indeed, the first time this strategy was implemented, at the large Ambienta show in Zagreb in 2006, it won the fair's first prize for best stand, as it did at the last show during the project's term, the 2008 Interio furniture fair in Sarajevo.

Finally, a key innovation of the CCA project was the creation of an export sales agents / manufacturers' representatives network for the BiH wood cluster. Prior to the war, the large BiH wood conglomerates had dedicated sales agencies all over the world, who acted as manufacturers representatives, displaying product lines and feeding orders back to integrated production Members of the BiH Tourism Association accept the first place award for their stand at WTM 2007, which they attended with support from CCA. CCA also assisted in stand development operations across BiH. Because the war halted virtually all production, these agencies collapsed, and after the war the conglomerates failed to be privatized and their subsidiaries mostly lapsed into bankruptcy, replaced by the emerging private sector. However, an "export readiness" assessment undertaken by CCA at its outset found that BiH wood producers were mostly using "friends and relatives" in foreign countries for connections to buyers, rather than through normal industry channels using established sales representatives having relationships with all the major buyers.⁶

CCA set out to re-create a viable sales agency network, recruiting representatives in most of the major markets of Western Europe and including the USA, and holding two large B2B events at which the rep network came in to BiH to sit with cluster producers to view their lines and develop orders. This essential market infrastructure network is a sustained legacy of the project.

Looking at the impressive overall performance of the BiH wood sector over the course of the project, which was actually outstripped by its CCA-supported cluster subset, we can attempt to infer the attribution of the USAID CCA investment to these results.

Table 17: Estimated Contribution of CCA to Macro Business Results - Wood			
	Sales \$ MM	Exports \$MM	Employment
Aggregate increase, 2003-07*	460	201	8,427
Increase attributable to USAID CCA Investment**	\$46 million	\$20 million	843 jobs created / 2,200 sustained⁺
USAID CCA total investment allocable to Wood Sector = \$7.5 million			
Investment : Results Ratios	6.1x	2.7x	\$8900 per new job

* Data are available only for exports. Sales data inferred from estimated 44% exports / total sales ratio, using figures for 64 companies in final CCA survey. Employment data inferred from estimated KM 76,300 sales / employee ratio from same survey.

** Estimated 10% of total increase + Based on total sector employment

⁶ Raymond and Raynor (2006)

Assuming only one-tenth of the improvement in business results of the BiH wood sector over the life of the project is attributable to CCA, the USAID investment is estimated to have contributed \$64 million to the sector's sales (8.6 times investment), \$28 million to exports (almost 4 times investment), and 843 jobs (\$8900 per job).

3.2.3 Activity Impact by Work Area: Wood Sector

The following table summarizes the major activity areas of CCA's support for wood processing & forestry, their outputs, and their impact.

<i>Table 18: Wood Products Competitiveness – Major Results</i>		
Activity Areas	Output	Impact
I. PRODUCT & PRODUCTIVITY		
1. Design and quality improvement and certifications	Quality management system support; design competition; wood processing technology centers support; General Product Safety Standards for furniture; CE mark training	World-standard product design and quality; global trade standards in place
2. Workforce development	21 training events; OTJ training for design, engineering students; wood CNC technology skills training center established; training in log grading	Improved wood sector workforce skills; wider use of advanced production technology
3. Access to finance	Facilitation of access to state SME finance and USAID DCA facilities; establishment of working capital fund for value-added processors	Increased equipment and working capital finance to successful wood companies
4. Facilitation of micro-clusters	4 micro-clusters established / supported; founding of cross-countries Southeast Europe Wood Clusters Association	Increased global market access through collaborative wider product line, common branding, shared marketing costs
II. LINKING TO MARKETS		
5. Trade fairs	Presence at important global wood products trade fairs; improved printed product catalogs; 3 major B2B events in BiH	Established profile on global markets of BiH as high-quality wood products supplier
6. Wood Sector ICT	BiH wood processors web portal for online marketing and promotion of design and production capacities	Capability for essential buyer-seller communications and information medium
7. Wood products export agents B2B network	Permanent network of sales representatives established for W Europe and USA	Improved connections to buyers; improved knowledge of market design and quality needs
III. BUSINESS ENVIRONMENT		

Table 18: Wood Products Competitiveness – Major Results		
Activity Areas	Output	Impact
8. Sustainable forest management	Transparent sawlog allocation systems; formal forest management company performance benchmarking systems installed; forest certification support; Joint Annual Forestry Conference; first BiH Wood Sector Convention	Raw materials ensured for most successful companies; sustainable forest management advanced; global trade standards in place
9. Forestry Law	State Forest Inventory phase I; Support for combating illegal logging; overhauled forest governance structure in RS; revised RS Law on Forests adopted	Greatly reduced illegal / corrupt practices in forestry; best-practice forest law

Based on a line-by-line record of the results of 189 discrete activities in support of wood sector competitiveness, the following summarizes key *output* results statistics that were contained in the CCA task order and subsequent requirements for “F Indicator” reporting.

Table 19: Key CCA Project Output Results Statistics Totals – Wood Sector		
Results Indicator	Unit	Value
Activities	# events, assignments, reports, trainings	189
Individual Participants	# people - total all activities	3,817
Gender	% female participants – all activities	16%
Stakeholder Participants	# companies, institutions – total all activities	2,654
CCA Direct Investment (not including TA)	KM	1,294,400
Partners Investment	KM	1,477,700
Publications / brochures / flyers	# copies	13,450
Stakeholders with Improved Management Practices	# activities / # companies, institutions participating	78 / 1,547
Stakeholders with Improved Technology		31 / 621
Stakeholders joining Business Associations	# companies	39
Trained in Quality & Operating Standards	# activities / # individuals participating	54 / 1,369
Trained in Pursuing Niche Markets		47 / 1,109
Trained in Forest Management		26 / 681
Public Awareness / PR / Press Coverage	% of all activities	25%

At the end of this report are four wood processing and forestry-related “Activity Impact Reports” covering the following broad areas:

- Forestry Governance and Management
- Sawlog Distribution
- Wood Processors Market Linkages
- Wood Products Quality and Workforce

Each of these covers a range of activities that CCA supported to improve the competitiveness of the BiH wood sector.

3.3 Lessons Learned

In the table below, we summarize major challenges that the project faced that kept CCA from achieving as much as it might have, things that might have been done differently or better, in hindsight, and positive lessons learned that can be replicated in other enterprise development projects.

<i>Table 20: Lessons Learned</i>
<p>Challenges:</p> <ul style="list-style-type: none"> • In tourism, the challenges of nationalistic politics and ingrained inherited position were daunting for developing competitive national-level tourism strategy. Nevertheless, a more aggressive earlier focus on strengthening the BiH Tourism Association (TUBiH) could have produced more results. Progress was achieved toward the end of the project in turning TUBiH into a true NTO. Further encouragement and support are needed. • In wood, the Wood Cluster Association was needed because there was no effective state-level wood industry association. However, WCA functions overlap with those of the BiH Foreign Trade Chamber (FTA), as well as entity and cantonal chambers of commerce and business associations. The WCA needs to work to achieve greater collaboration with these organizations, in place of competition. • In both sectors, further work to stimulate the formation of “micro-clusters” is warranted. • Within the first year of the CCA project, the BiH U.S. Embassy’s focus on addressing the problems of the RS forest management company (Šume Republika Srpska), which had been placed on the U.S. Treasury’s OFAC list, prevented CCA from implementing activities following the early mobilization of the Banja Luka-based regional wood cluster. By the time SRS was finally removed from the OFAC list in March 2008 (in part thanks to CCA’s successful assistance in reform of RS forestry governance), it was too late to initiate activities. • In both sectors, greater institutionalization of workforce training remains a need. A large number of discrete training activities were implemented, and in some valuable cases these were sustained by stakeholders. However, because of the priority given to market connections, business environment, and other product improvement activities, systematic training was in general underdeveloped. Conditions are now ripe for this to be a key focus of the next project. • In tourism, a broad survey of public tourism sites management was not done, so the project could not use it to demonstrate shortcomings and improvements needed relative to international best practices. A survey instrument was prepared and a pilot done and this work should be followed up on by implementation of a detailed sites survey early in the next project. • In wood, focused activities succeeded in improving product design at a number of companies, but further systematic effort is needed. Also, international trade show attendance by the BiH wood sector is still inadequate. The improved foundation for capable joint trade show participation that CCA established can be built on, not just within the region

Table 20: Lessons Learned

but for major international fairs in Germany, the U.K., and the USA.

- At project-end, BiH still lacked broad internet-based transactions capability for tourism, an early workplan objective. CCA initiated extensive work on this topic, transferring completion to a later ICT-focused USAID project.

Replicable Positives:

- Effective collaborative working groups can and should be formed quickly. The project was able satisfactorily to mobilize clusters, motivate a critical mass of committed stakeholders, and prioritize issues and strategies within its first four months, allowing the remaining 44 months to be devoted to actual competitiveness-enhancing activities.
- Project strategy should focus as much as possible on commercial aspects – identifying actual market opportunities that are potentially accessible to stakeholders and orienting activities to fulfilling those opportunities.
- A mixture of high-profile and grassroots activities is most effective. Projects should not shy away from a selected set of “headline” activities, even if they are relatively expensive, because these can leverage great public awareness and consequently improvement in business environment conditions far greater than could be achieved by working only from the “bottom up” to improve product, regulation, and so on. At the same time, a wide range of smaller “grassroots” local-level improvement activities gains adherents to project goals throughout the country.
- Effectiveness requires organization of collaborative working groups at both the national and subnational levels. At the national level, major business environment and policy issues can be addressed, but commercial activities that benefit actual firms are very difficult to implement. The latter are best managed at the level of the economic region, but these need a national-level industry advocacy group for policy-related problems.
- A major value chain gap for these two BiH sectors, which is typical of developing economies, was the marketing infrastructure between local producers and ultimate buyers. Instead of building out joint marketing capabilities through recognized agents, major trade shows, and the internet, too many producers / service providers depended on “family and friends” or traditional contacts, limiting connections to only a few buyers. It is critical for all sectors that vertical value chains be carefully mapped so that how business is normally done in these markets is understood and can be pursued properly.
- The value of cluster formation for simple networking must not be underestimated. It was remarkable to see that business leaders in the same industry did not know each other nor do business with each other prior to CCA’s facilitation of cluster formation. Subsequent networking stimulated a range of spontaneous business opportunities and collaboration not expected at project outset.
- We found many more opportunities to obtain high-quality short-term technical assistance from local CCN providers than initially expected, allowing the project in the end to employ greater total LOE while coming in under budget for labor cost. This allowed for greater investment in competitiveness-enhancing activities within the overall project budget. While expat STTA is still needed, it can be efficiently applied, knowledge transferred, and carried forward by CCN consultants.
- The project worked effectively in a demand-driven, bottom-up manner by focusing *locally* on industries in geographic subregions. Consequently, the project was able quickly to mobilize groups of companies and supporting institutions that needed to network. Once mobilized, these networks worked together effectively to identify themselves opportunities and constraints, and engage CCA to help them .

4. SUSTAINABILITY OF THE CCA INVESTMENT

Sustainability of development project investments is best ensured through the *creation and strengthening of institutions*. Developing countries typically have far fewer business and civic institutions than is common in advanced economies, and those that do exist are often ineffective, quasi-public agencies left over from socialist-era regimes, rather than dynamic, private sector-driven interest groups. From its outset, CCA worked constantly to establish and strengthen institutional sustainability.

In addition, CCA financed certain major assets for the use of both clusters, which will help sustain key competitiveness strategies through their remaining useful medium-term lifetimes and beyond as their usefulness is recognized and they are maintained by cluster stakeholders.

The major sustainability elements of USAID's investment in CCA are:

- *Institutionalization of public-private dialog mechanisms*, including (i) permanent quasi-formal working groups that have adopted specific scopes of work, meet regularly, and have fixed representation, and (ii) formally registered business associations with statutes, boards of directors, and employed Executive Directors. All six of these key institutions were launched as a result of CCA initiatives, and are active and self-sustaining.

Table 21: Institutionalized PPDs		
Institution	Founded	Membership
Tourism Working Group	Nov-06	BiH Ministry of Foreign Trade & Economic Relations, FBiH Ministry of Tourism & Environment, RS Ministry of Economy & Tourism, and Tourism Associations of BiH, FBiH, and RS
Una-Sana Canton Sawlog Distribution Working Group	Dec-06	USK Forest Management Company, USK Chamber of Commerce, 12 private sector wood processors
Foreign Investors Council*	Dec-06	Principal members: 27 private foreign-owned companies. Associate members: Central Bank of BiH, BiH Foreign Investment Promotion Agency, EBRD
FBiH Sawlog Distribution Policy Group	Mar-08	FBiH Forestry Administration, Cantonal Forestry Ministries, Cantonal FMCs
BiH Wood Cluster Association*	Jun-08	Principal members: 12 private wood processing companies. Associate members: USK Chamber of Commerce, FBiH Chamber of Commerce, REZ Regional Economic Development Agency
Bašćaršija Business Improvement District*	Jul-08	Principal members: 14 private businesses. Associate members: Sarajevo Old Town Municipality, Old Crafts Association

* Registered business associations

In addition, a number of the regional cluster working groups dedicated to specific competitiveness areas are well-established and will continue on their own after the project, including in particular the Una-Sana Canton Sawlog Distribution Working Group that administers the transparent sawlog allocation system that emerged from the organization of the Northwest BiH regional wood cluster by CCA

- *Strengthening of “micro-clusters”, including*
 - Four Rivers Rafting Group (Foča, Banja Luka, Bihać)
 - Green Tours (Bihać, Mirkonjić Grad, Banja Luka)
 - Beyler Furniture Group (Gračanica)
 - Avenija Furniture Group (Sarajevo)
 - Bosnian Beech Group (Sarajevo)
 - Bosanska Krupa Furniture Group
- *Institutionalization of workforce development, including:*
 - Rafting skippers Instructor licensing, a result of CCA’s support, providing for regular annual training sessions organized by the 12-company “4 Rivers” rafting tourism micro-cluster
 - Tesanj school wood processing technology training center
- *Institutionalization of sector-wide conferences and conventions, including*
 - The Annual Joint Forestry Conference, a CCA initiative that has now had three successive annual meetings
 - BiH Wood Industry Convention and B2B during the annual INTERIO furniture trade fair in Sarajevo
 - Annual tourism B2Bs, including tourism promotion at the Sarajevo Film Festival
- *Long-term business enhancement infrastructure, including*
 - BiH branding and image materials (BiH logo and “Enjoy Life” films)
 - Tourism trade fair stand
 - Forestry management companies performance benchmarking system
 - Forestry management companies strategic planning system
 - BiH wood cluster “Best of Bosnia” trade fair stand
 - Wood sector export sales agents network
 - “Clean is Beautiful” anti-litter / environmental protection campaign
- *Strengthening of existing business associations through collaborative work, of which the main ones are:*
 - BiH Tourism Association (TUBiH)
 - Una-Sana Canton Chamber of Commerce, CCA’s implementing partner for wood and tourism in northwest BiH
 - Regional Development Agency of Central BiH (REZ), CCA’s implementing partner for Central BiH in wood and tourism
 - Herzegovina Tourism Association, CCA’s implementing partner for tourism in western and southwestern BiH
 - Tourism Organization Republika Srpska

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ANNEX: ACTIVITY IMPACT REPORTS

Wood Processing & Forestry:

- Forestry Governance and Management
- Sawlog Distribution
- Wood Processors Market Linkages
- Wood Products Quality and Workforce

Tourism:

- Rafting Tourism
- Tourism Image and Branding
- Tourism Market Linkages
- Tourism Public Awareness

Activity Impact Report

USAID BiH Cluster Competitiveness Activity



Activity Name:	Forest Governance & Management			
Sector:	Wood Processing & Forestry			
Competitiveness Areas / Subcategories:	Business Environment / <i>Governance & Regulation; Development Policy</i> Product & Productivity / <i>Design & Quality Standards</i>			
Investment:	CCA	\$120,000	Partners	\$500,000
Implementation Timing:	Begin	Mar-05	Complete	Jul-08

Activity Background – The Competitiveness Problem:

One of the great comparative advantages of BiH is its rich forest, which covers over half of its area. This forest is the basis for the country's traditionally strong wood products sector. In BiH, as in many other countries, most forests are publicly-owned, and forest management is carried out by public corporations under the authority of ministries responsible for natural resources. At project outset, there were many serious problems with sustainable forestry management in BiH. The forest management company in the RS had received damning audits of its logging and financial practices by the RS public auditor, and was actually on the U.S. Treasury's OFAC list. The World Bank, through its BiH Forestry Development & Conservation Project (FDCP), had assessed illegal and corrupt practices in forestry to be severe throughout BiH, and had established a task force to combat them. No FMC had a website. The reputation of forest management companies (FMCs) with the BiH public was extremely poor. This situation was a major threat to the competitiveness of the downstream wood processing sector and to investment in it.

Activity Description:

CCA carried out a range of activities directed at improving forestry governance and management that started early in the project at the macro / institutional governance level, and proceeded down through the actual management of forests. A major goal was to move toward formal forest certification throughout BiH, a standard increasingly needed by wood processors for global consumer markets:

- **Republika Srpska Forestry Governance Restructuring & Law:** The RS FMC, considered to be rife with corruption at the beginning of the CCA project and on the OFAC list, was imbedded in a poor institutional governance structure in the RS. With CCA technical assistance to the RS Ministry for Agriculture Forests & Water Management, a major reform that placed the FMC under disciplined, arms length, transparent control and included contractual commitments for forest certification. CCA presented this reform directly to the RS Prime Minister who approved this and arranged its adoption within two months. Subsequently, CCA provided technical assistance for a complete rewriting of the RS Law on Forests that incorporated these reforms.
- **Joint Forestry Conference:** CCA worked hand-in-glove with the World Bank's FDCP project to support the official adoption of a formal "Action Plan to Combat Illegal & Corrupt Practices in Forestry & Wood Processing" in each entity. After the FDCP completed its work, CCA took over responsibility for organizing an annual conference to require the ministries to report on their progress vis-à-vis the Action Plans. This conference, which brought all major stakeholders in the BiH forestry sector together once a year in the fall, was widened to cover all major current topics. It was held three consecutive times and will be carried forward by stakeholders as a permanent institution.
- **State Forest Inventory Support:** CCA collaborated with the World Bank FDCP in supporting the first BiH State Forest Inventory (SFI) in over 40 years.
- **Forest Management Benchmarking & Forest Certification Preparation:** Working with the Forestry Faculty of the University of Sarajevo, with assistance from the US Forest Service and the Austrian State Forest Management Company (OBf), CCA supported an extended training program for FMCs in the FBiH to establish a formal benchmarking program covering their entire business management systems, to help move them more rapidly toward forest certification and better timber

contracting practices.

- *Chain of Custody Training:* Taking the forest certification process to downstream, CCA supported training of furniture and joinery manufacturers in “chain of custody” procedures, which specify how a wood processor should segregate timber from certified forests in the raw material purchasing and manufacturing process in order to be able to mark a final product as forest-certified.

Activity Results:

Qualitative:

- New RS Law on Forestry adopted containing significant restructuring of the institutional governance of the RS FMC. The RS FMC was removed from the OFAC list during the final year of the CCA project.
- Four FMCs in the FBiH formally incorporated benchmarking systems in their business management and monitoring.
- Phase I of State Forest Inventory completed, covering 13% of the BiH forest; Phase II underway
- Annual BiH Joint Forestry Conference held in three consecutive years and to be sustained by local stakeholders as an annual event bringing together all key forestry stakeholders.
- Ten wood processors and one wood microcluster institution trained in Chain-of-Custody procedures for certified wood.
- Several FMCs established websites on which they routinely published transparent information on log tenders and sales.

Quantitative – Business Results-related:

- Indirect but substantial and long-term.

These results are directly attributable to CCA, together in some cases with the World Bank FDCP.

Summary of Impact:

During the course of the CCA project, BiH moved from being a country considered to have among the world's most corrupt and mismanaged forestry sectors to one in which three forest management areas were certified and many more in the process of being certified. The entire BiH forestry sector moved radically forward in its awareness of the critical importance of sustainable forestry and its application of sustainable forest management practices. CCA's direct technical assistance in macropolicy reform in forestry, and its contribution to awareness was a critical factor in this major reform.

Activity Impact Report

USAID BiH Cluster Competitiveness Activity



Activity Name:	Sawlog Distribution			
Sector:	Wood Processing & Forestry			
Competitiveness Areas / Subcategories:	Business Environment / <i>Commercial Regulation; Development Policy</i>			
Investment:	CCA	Primarily TA	Partners	\$10,000
Implementation Timing:	Begin	Nov-05	Complete	Jul-08

Activity Background – The Competitiveness Problem:

BiH is covered by one of the largest and richest forests in Europe – the comparative advantage behind the country's longstanding tradition in wood products. However, at regional cluster working group meetings organized by CCA at the outset of the project, participants identified access to sawlog raw material supply as one of the greatest obstacles to competitiveness. Allocation of sawlogs, most of which were cut by state-owned forest management companies (FMCs), was at best untransparent, dependent upon political favoritism and personal connections. At worst, the system was compromised by insider trading, corruption, purposeful misgrading, and outright log theft. Furthermore, the processing capacity for sawlogs exceeded the supply by as much as three times, aggravated by a large number of small, unlicensed sawmills who cut logs and exported raw lumber with little value added. This situation made it very difficult for newer, entrepreneurial value-added wood processors to ensure a reliable supply of logs for their expanding orders, some of whom were so frustrated they were ready to close their factories.

Activity Description:

Regional wood processing & forestry clusters organized by CCA formed a working groups focused on the problem of access to raw materials, consisting of regional FMCs and users of wood. The following activities were organized:

- *Northwest BiH Sawlog Allocation System:* The Una-Sana canton (USK) FMC and a representative group of wood processors decided to develop a formal system that would neutrally allocate the annual sawlog harvest by shares based on objective market-based parameters such as export growth, employment, and capacity to pay. CCA provided consulting support, and the system went live at the end of 2006. It is entirely fair and transparent, with data updated annually. It has completely eliminated the previously identified problems.
- *Log Sorting & Grading Training:* Classroom and field training were carried out in support of the sawlog distribution system, to improve workforce capacities in sawlog sorting and grading in order to reduce misclassification (mistaken and purposeful) and improve transparency
- *Central BiH Sawlog Allocation systems:* The USK model was introduced to forestry and wood processing working groups in two central BiH cantons, with the basic approach agreed and data gathered. Adoption of the system was in process at project end.

Activity Results:

Qualitative:

- Transparent log distribution system with contracting mechanism; major reduction in corrupt practices and favoritism in allocation of sawlogs
- Elevation to primacy of market-based determinants in sawlog allocation
- Discouragement of grey economy since only officially-reported data are acceptable for participation in the distribution system
- 25 log grading technicians from three FBiH cantons trained
- Significantly improved relations between FMCs and wood processors
- Awareness of the system's success in USK is causing it to be copied in other forest management areas, and stimulated the FBiH Government's issuing a Decision in February 2008 that obligated

cantonal FMCs to adopt objective published criteria for ranking customers and for transparent procedures for annual sawlog contracting.

Quantitative – Business Results-related:

- Stable and reliable supply of raw materials to successful wood processing companies has contributed at least ten percentage points to annual Northwest BiH wood products sales growth since the system was initiated.
- Due to its focus on value added as a key criterion for sawlog allocation, it is estimated that in the first 5 years of implementation 60% of all investments in wood processing sector will be stimulated by system itself, after which value added is expected to grow at a 40% annual rate and annual sales by 20%.

All of these results are fully attributable to CCA's clustering initiatives that encouraged participants to network, identify joint problems, and work together to resolve them, supported by project technical assistance in implementation.

Summary of Impact:

Starting from a situation of discord and uncooperativeness between forest management companies and private wood processors, and untransparency, favoritism, and even corruption in sawlog distribution, the cluster processes facilitated by CCA institutionalized a collaborative public-private partnership that established a fair and transparent system for distributing sawlogs in Northwest BiH, based on objective parameters reflecting market success. A permanent working group will carry forward this system, which has become a model currently in the process of adoption by other BiH wood processing regions and is now a formal element of government forestry policy in the Federation.

Activity Impact Report

USAID BiH Cluster Competitiveness Activity



Activity Name:	Wood Products Market Linkages			
Sector:	Wood Processing & Forestry			
Competitiveness Areas / Subcategories:	Linking to Markets / <i>Business Connections; Trade Shows; Image-Branding-Marketing</i>			
Investment:	CCA	\$125,000, plus extensive TA	Partners	\$200,000
Implementation Timing:	Begin	Dec-05	Complete	Jul-08

Activity Background – The Competitiveness Problem:

At initial cluster mobilization and strategy meetings, wood sector stakeholders identified connection to Western markets as one of their greatest challenges. Prior to the war, the large state-owned wood products conglomerates had their own highly effective sales offices all over the world, but these had entirely disappeared. An early “export readiness” assessment commissioned by CCA showed that BiH producers were simply using friends and relatives in Western countries as their primary means of connecting to buyers, rather than established trade representatives. Only the largest BiH producers regularly attended important international wood industry trade shows and had any internet presence – SMEs were left out. This absence from the established market connections infrastructure was a major competitiveness problem for BiH producers.

Activity Description:

CCA planned and implemented with stakeholders a range of activities designed to re-connect BiH wood furniture and joinery producers with global market buyers.

- **Producer Networking:** CCA cluster mobilization brought BiH producers who had never before networked into new production partnerships and shared marketing operations. These activities had the effect of presenting a wider product line to address the trend by large international buyers interested to simplify their supply chains by sourcing from fewer suppliers.
- **Agents Network:** CCA initiated an effort to build a permanent network of sales agents and manufacturers representatives in Western markets. The project solicited individuals active in Western wood markets who knew the major buyers who were potentially interested in representing BiH products, and brought them to Sarajevo for B2B meetings with BiH manufacturers, and promoted BH value-added exports through them. Such an agents network takes time to build, but is essential if BiH producers are to be truly in the market, and CCA built a foundation to take this forward.
- **International Trade Shows & “Best of Bosnia” Stand:** CCA commissioned the design and building of a 250 m2 permanent trade show stand for the wood sector, and established the “Best of Bosnia” concept for an integrated, shared exhibition space to display the range of BiH furniture products from a variety of producers. The stand won awards at international trade shows and will continue in use managed by the CCA-established permanent BiH Wood Cluster Association..
- **Wood Cluster Internet Portal:** CCA supported the development of an internet portal for the BiH wood products industry, covering furniture and joinery, and the connection of wood producers’ individual company websites to it.
- **BiH Wood Industry Trade Show:** Stakeholders needed a regular marketing platform in BiH for both the domestic and international markets. CCA worked with the BiH Foreign Trade Chamber to substantially strengthen the annual “Interio” wood industry trade show in Sarajevo, launching an annual BiH Wood Industry Convention, a regional furniture design competition, and a B2B meeting alongside the show.

CCA supported 30 technical assistance assignments by both expat and local consultants related to market linkages.

Activity Results:

Qualitative:

- A permanent network of sales agents and manufacturers representatives established in Western markets, with 14 members.
- Permanent “Best of Bosnia” trade show stand built for the BiH wood industry
- Internet portal created for information and marketing of BiH wood products
- “Interio” fair, the most important wood industry trade show in BiH, substantially upgraded to attract foreign buyers to an annual venue for BiH wood producers
- Organization and facilitation of three major wood sector B2B events in BiH and their permanent institutionalization.

Quantitative – Business Results-related:

- Overall, BiH exports of value-added wood products have grown by almost 80% over four years of the CCA project, far higher than the growth of the overall economy, to some \$250 million likely in 2008. Meanwhile, the share of value-added products in total exports has expanded from 30% to 40%.

Summary of Impact:

From a situation of little established market presence and lack of use of commercial market channels, CCA facilitated the networking and partnering of wood producers to widen their effective product lines. The project provided producers with much more powerful connections to global markets, greatly upgraded the BiH presentation at international trade shows, created a common internet portal for connecting to markets for the entire wood sector, and established a regular annual B2B event at an enhanced BiH wood industry trade fair. BiH now has a recognized commercial presence in global wood products markets.

Activity Impact Report

USAID BiH Cluster Competitiveness Activity



Activity Name:	Wood Products Quality Improvement			
Sector:	Wood Processing & Forestry			
Competitiveness Areas / Subcategories:	Product & Productivity / <i>Design & Quality Standards, Workforce Development</i>			
Investment:	CCA	\$75,000, plus extensive TA	Partners	\$30,000
Implementation Timing:	Begin	Dec-04	Complete	Jul-08

Activity Background – The Competitiveness Problem:

Bosnia & Herzegovina has a rich tradition in wood, thanks to its rich forests and extensive modernization of the industry starting in Austrian times. In the former Yugoslavia, the large state-owned wood industry conglomerates operated worldwide with considerable success. However, the war took BiH out of the global market, destroyed much of the industry, and idled the workforce. Since then the industry has struggled to catch up. A major obstacle to competitiveness identified by stakeholders during early cluster mobilization was the low and inconsistent quality level of BiH wood products, and the need for substantial improvement in workforce skills, if BiH was to be able to move toward higher value-added markets. Furthermore, the lack of formal quality and safety certifications prohibited access to some Western markets.

Activity Description:

CCA planned and implemented with stakeholders a set of activities aimed at improving the quality of BiH wood products and developing wood sector workforce skills.

- **Quality Management Systems Program:** For the Northwest BiH regional WP&F cluster consisting of approximately 40 wood processors, and in close cooperation with our implementing partner for the region (the Una-Sana Canton Chamber of Commerce), CCA provided training in quality management systems (QMS) and the European CE marking, produced a handbook entitled “Technical Guide for Wood Products Exporters”, and established a fund to support companies in the QMS preparation and certification process. The fund was co-funded by the municipal and cantonal government.
- **Technology Training Centers:** CCA collaborated with wood cluster stakeholders in central BiH improving workforce development through the Tesanj Technical School. CCA supported curriculum development and equipped a laboratory and class center for CNC (computer-based) wood cutting equipment training of present and future wood industry technicians. Indirectly through its Central BiH implementing partner, the Regional Economic Development Center (REZ), CCA supported establishment of a wood processing technology center in Zenica.
- **Students- Factories Collaborations:** CCA worked with the Federation Chamber of Commerce, the Industrial Design School of Sarajevo, and the private sector on a program to place design students in wood processing factories, both to expose the factories to advanced design concepts, and to allow the students to gain experience in the problems of turning designs into products. This program won an award at the annual international conference of chambers of commerce in 2006. Separately, CCA supported a similar program to place wood engineering students for practical training in cluster stakeholders’ factories.
- **General Product Safety Standards:** Together with the BiH Foreign Trade Chamber, the Federation Chamber of Commerce, and private sector stakeholders, CCA supported development of general product safety standards for the BiH furniture industry, based on global trade standards.

In all, CCA supported some 35 technical assistance assignments by both expat and local consultants related to product improvement, and 23 training events covering design, quality, and technology issues in wood production.

Activity Results:

Qualitative:

- In Northwest BiH, 35 companies trained in QMS and CE marking, with 10 either having obtained formal certification or in final stages.
- 250 graduates of formal wood technology and design skills programs supported by CCA.
- Approximately 1500 participants in various CCA-supported trainings in wood processing.
- General Product Safety Standards established for BiH furniture industry.
- Two wood processing technology centers established and equipped for permanent use of all industry participants.
- “Quercus” award established for a Southeast Europe regional wood product design competition at the annual Interio Fair & BiH Wood Industry Convention in Sarajevo.

Quantitative – Business Results-related:

- In Northwest BiH, exports of the 35 training participants grew 100% in the two years after the program was introduced, from KM 23.5 million in 2005 to KM 46.4 million in 2007.
- Overall, BiH exports of value-added wood products nearly doubled over the four years of the CCA project, from KM 175 million in 2005 to some KM 310 million likely in 2008. Value-added products have grown from 30% to 40% of total wood sector exports.

Summary of Impact:

At CCA project outset BiH wood products generally lacked design sophistication and had a reputation for inconsistency in quality. Through project investments of technical assistance and program funding, substantial advances were made in design awareness and quality practices, certifications were achieved, and permanent workforce development programs for wood technicians established. These results have created a necessary foundation for further advances, and deserve a portion of the credit for the industry’s strong overall performance during the life of the USAID project.

Activity Impact Report

USAID BiH Cluster Competitiveness Activity



Activity Name:	Rafting Tourism			
Sector:	Tourism			
Competitiveness Areas / Subcategories:	Product & Productivity / <i>Workforce Development</i> Market Linkages / <i>Buyer Connections; Trade Shows</i>			
Investment:	CCA	\$67,400	Partners	\$16,500
Implementation Timing:	Begin	Apr-06	Complete	Apr-07

Activity Background – The Competitiveness Problem:

Rafting tourism is a well-defined, rapidly growing niche in the outdoor / adventure tourism segment. With the clean rivers that tumble through its lofty mountains, BH has outstanding natural potential to become a major rafting tourism destination. However, at CCA project outset BiH had very few certified rafting skippers and little presence at international outdoor tourism trade shows. BiH rafting was not offered by any major foreign tour operator, nor even most domestic tour operators. Domestic linkages within the industry were weak: there was no rafting business association, no joint packaging or branding, no national rafting team. Rafting operators were organized as clubs rather than as commercial businesses, and rafting was not even acknowledged as a tourism segment in government industry support strategy.

Activity Description:

Rafting tour operators attended CCA-organized regional cluster working groups at the outset of the project. CCA recognized the great natural potential of this niche tourism segment and, working with these private sector partners, adopted a strategy to improve its competitiveness based on the following key activities:

- *Rafting skippers certifications:* Two one-week courses were conducted by the International Rafting Federation (IRF). Trained BiH trainers conducted follow on water skills and first aid courses.
- *Rafting tourism familiarization trips:* Multiple trips were organized, bringing 15 rafting tour operators and outdoor tourism journalists from central and western Europe to experience BH rafting
- *Outdoor tourism trade fairs attendance:* Joint presence and presentation by private tour operators at the Utrecht, Holland outdoor tourism trade show, for three years running.

Activity Results:

Qualitative:

- IRF Raft Guide or Trip Leader certifications of 53 BiH rafting skippers, including two IRF “instructor” licenses, allowing institutionalized local certifications going forward by these trained trainers
- Formation of BiH-level commercial Rafter’s Association. National rafting team formed, competing in international events
- Creation and marketing of “4 Rivers Rafting” by 12 private operators as joint product package for international markets
- Formal registration of most rafting organizations, previously “sports clubs”, as commercial tourism businesses
- Widening / deepening of sector value chain and manufacturing investment: domestic commercial production of rafts launched
- Increased local community involvement in support of rafting tourism as a result of positive public awareness surrounding the CCA-supported activities
- Recognition of rafting in government tourism policy / law as separate tourism service category.

Quantitative – Business Results-related:

- After growing by about 15% per annum from 2003-05, rafting tourism growth has surged to 30% per annum during the term of the CCA project, to some 60,000 tourists in the 2007 season. The aggregate direct economic impact from this tourism exceeded \$10 million. The BiH Rafting

Association expects 50% per annum growth in 2008-10.

- BH selected for 2009 World Rafting Federation Championships. This will bring in 600 participants from 50 countries and highlight BiH as a premier global rafting destination.
- BH rafting now featured by numerous outdoor tourism operators in central and western Europe, and all BH travel agencies have now added rafting tours to their offers

Each of these results, addressing all of the sector's competitive challenges identified at project outset, is attributable in substantial measure to CCA's support to the private sector rafting micro-cluster in organizing this tourism niche, enabling its international certification, and linking it to global tourism markets.

Summary of Impact:

Starting from two small kayak clubs at two ends of the country who did not know each other, with no certified rafting skippers and a few hundred tourists per year, CCA cluster facilitation and support enabled the creation of a vibrant microcluster with over 50 internationally certified skippers, displaying jointly on major international tourism trade fairs, hosting over 75,000 tourists this year, and winning for BiH the venue of the bi-annual World Rafting Federation Championships in 2009.

Activity Impact Report

USAID BiH Cluster Competitiveness Activity



Activity Name:	Tourism Image, Branding, & Marketing			
Sector:	Tourism			
Competitiveness Areas / Subcategories:	Linking to Markets / Image Branding & Marketing			
Investment:	CCA	\$230,000	Partners	\$600,000
Implementation Timing:	Begin	Nov-05	Complete	May-08

Activity Background – The Competitiveness Problem:

At initial tourism cluster meetings organized throughout the country at the beginning of the CCA project, the greatest single obstacle to attracting tourists to BiH that stakeholders cited was the country's extremely negative external image. BiH was still widely viewed as a war-torn, mine-strewn land. BiH was not distinguished from other Balkan countries with more recent ethnic conflict. It was critical to begin to address the problem of Bosnia's external image and branding on world tourism markets. Furthermore, public and public/private tourism and investment promotion institutions that would normally design and fund country marketing campaigns had neither a strategic plan nor adequate funding.

Activity Description:

CCA developed with tourism cluster stakeholders a strategy first to begin to change the external image of BiH through video promotion, then, leveraging the enthusiasm for the video promotion, to implement a long-term country branding and marketing plan.

- **"Enjoy Life in BiH" Videos:** The BiH Foreign Investment Promotion Agency had obtained a limited amount of funding to run country promotion ads on CNN, and asked CCA for assistance in producing video materials. CCA decided that the materials should be developed to be used in far wider venues, such as trade shows, tour operator offices, BiH embassies abroad, and long term marketing. CCA formed a representative commission and invited advertising agencies and film producers to submit concepts. The winning concept, "Enjoy Life", was produced in a "long" 8-minute video for use at trade fairs and tour operator offices, plus fifteen 20-30 second clips for television. The video was submitted to a number of tourism film trade shows in 2007 and won top prizes in Berlin, Prague, Lyons, and Los Angeles. It eventually ran for two 3-month periods on CNN, and is used at trade shows by tourism and other industries, and in presentations for investment promotion. It is extremely popular locally, often seen on domestic television as filler between TV shows.
- **Tourism Branding and Marketing Plans:** Despite the globally-recognized quality of "Enjoy Life", BiH had no strategy for developing a country brand, or for rolling out a global tourism marketing campaign using the video materials. CCA engaged an international expert to facilitate a shared sense of country brand, and to work out with stakeholders a phased, prioritized plan for marketing BiH. The deliverable, approved by stakeholders, presented planners with a budgeted, implementable program, sequenced according to priority target markets, for allocating resources over a multiyear period to launch and carry forward a sustained country marketing strategy.
- **Tourism Logo:** At the beginning of the CCA project a variety of tourism-related logos were in use, badly fragmenting the marketing and branding impact. CCA immediately sought to address this issue, formed a review commission, and invited proposals of which some 15 were received. The chosen proposal is now recognized as the single BiH-wide tourism logo, and the State government has decided formally to adopt it as the official logo for BiH in all uses.

Activity Results:

Qualitative:

- First promotion of BiH through international TV media as a tourism destination in 20 years
- Greatly increased attractiveness of BiH presence at international trade shows and investment

promotion events

- Common logo for marketing materials, elevating brand impact
- Highly enthusiastic domestic public fondness for “Enjoy Life”, encouraging support for tourism.

Quantitative:

- Large number of inquiries from international tour operators and travel media.
- 20% per annum growth in tourism over the course of the project.

Summary of Impact:

From a situation of no unified logo or branding materials, and no marketing plan or budget, CCA stimulated the creation and adoption of a common country logo, a shared set of world class video materials, and a multiyear country marketing strategy. These are foundation elements to bring BiH onto the highly competitive global tourism and investment promotion markets attributable entirely to the USAID investment in CCA.

Activity Impact Report

USAID BiH Cluster Competitiveness Activity



Activity Name:	Linking to Global Tourism Markets			
Sector:	Tourism			
Competitiveness Areas / Subcategories:	Linking to Markets / <i>Buyer Connections; Trade Shows</i>			
Investment:	CCA	\$190,000	Partners	\$500,000
Implementation Timing:	Begin	Jan-06	Complete	Jun-08

Activity Background – The Competitiveness Problem:

At the beginning of the CCA project Tourism cluster stakeholders had extremely poor connections to international markets. BiH tour operators were in business mainly for outgoing trips, with few ties to agents in Western tourist generating markets. BiH did not attend the largest and most important annual travel & tourism industry trade show, London's World Tourism Market (WTM), and had an extremely poor presentation at the shows it did attend. Few foreign travel journalists had ever visited BiH. BiH tourism had little internet presence and no internet transactions capability. These weaknesses posed substantial obstacles to the country's competitiveness in tourism.

Activity Description:

Working with stakeholders including the BiH Tourism Association and progressive private tour operators, CCA developed a strategy to attack these fundamental issues.

- **Tourism B2B Familiarization Trips:** CCA organized seven major B2B events, bringing over 70 travel & tourism journalists and Western tour operators to BiH to see what the country has to offer, including a range of general and recreational travel magazines, Yahoo, and National Geographic.
- **Guidebooks:** CCA supported development and publication of three print guidebooks and one web guidebook. The print guidebooks included the first guide to BiH by *Time Out* – a world leader in travel guides.
- **Tourism Trade Shows:** CCA placed major focus on establishing a high-profile BiH presence at the key international tourism trade shows. In 2006 the project supported a limited introduction of BiH at the WTM show in London – and in 2007 full-scale participation with a full stand. CCA also supported substantial upgrading of the BiH presentation at the International Tourism Bourse (ITB) in Berlin, the second-most important annual global tourism trade show, as well as more focused presentations at annual trade shows in Utrecht Holland (for outdoor tourism) and the Cannes Film Festival (to encourage incoming tourism at the annual Sarajevo Film Festival, the largest festival event on the BiH calendar).
- **Trade Show Stand:** CCA initiated and provided substantial support for the design and construction of a stand that would present BiH at global market trade shows with level of drama and technical quality that is required to appear competitive at such shows. The project established a commission that selected a winner from seven design submissions, and financed construction. At its first use at the 2007 London WTM show, the stand won a first prize for its appearance and attracted a great deal of favorable attention. The stand was transferred to the ownership of the BiH Tourism Association at the conclusion of the project.
- **Transactions-enabled Internet Portal:** CCA invested substantial technical assistance in planning for an internet portal connected to the well-visited EU-funded www.bhtourism.ba website, through which independent travelers and agencies could book rooms and tour itineraries in BiH. CCA's plan was transferred for implementation to the BiH USAID mission's Excellence in Innovation project which began in 2008 with a focus on technology solutions for competitiveness problems.

Activity Results:

Qualitative:

- First-ever presence of BiH at WTM; greatly improved presentation at ITB
- Opening of direct flight service between London and Sarajevo
- Featuring of BiH on *Yahoo Travel* TV and website, and the *National Geographic Travel Channel*
- Publication and distribution of three BiH travel guides, including *Time Out*
- Permanent advanced-design stand for use of BiH tourism at international trade shows

Quantitative:

- Over 200 contacts with foreign tourist agencies and operators in Western generating markets
- At least 30 articles on BiH travel in foreign travel & tourism press, including major coverage in the *New York Times*, the *Washington Post*, and leading British papers
- 20% per annum growth in tourism over the course of the project.

Summary of Impact:

The USAID CCA project, through its broad-based activities in this area, was virtually solely responsible for stimulating much wider and richer ties between BiH tourism and global tourism markets. The project established BiH prominently at the most important global tourism trade shows, stimulated dozens of favorable articles in the international travel and tourism press and in TV and internet video media, developed guidebooks, and established permanent linkages with a network of Western tour agents. BiH now has a platform for market linkages on which to build a rapidly expanding tourism industry in the years ahead.

Activity Impact Report

USAID BiH Cluster Competitiveness Activity



Activity Name:	Domestic Public Awareness of Tourism			
Sector:	Tourism			
Competitiveness Areas / Subcategories:	Product & Productivity / <i>Product Quality</i> Business Environment / <i>Development Policy</i>			
Investment:	CCA	\$240,000	Partners	\$350,000
Implementation Timing:	Begin	Mar-05	Complete	Jul-08

Activity Background – The Competitiveness Problem:

USAID pre-selected tourism as a potentially promising sector for support by the CCA project because of the country's outstanding natural and cultural tourism resources, and because the tourist industry was dominated by private SMEs who could be brought together. However, one of the first obstacles identified at cluster organizing meetings was that the Bosnian public at large did not generally regard tourism as an important source of economic growth, and BiH governments did not prioritize the sector at all in its economic development plans. In fact, a World Economic Forum ranking of countries' travel & tourism sector competitiveness, BiH came in next-to-last out of 124 countries in the category "prioritization of tourism". This lack of awareness discouraged public care for the tourism environment, and minimized pressure on government to elevate the sector in development policy and budgeting – severe problems for the country's tourism competitiveness potential.

Activity Description:

Working with stakeholders, CCA supported two major campaigns designed to elevate public awareness of the economic value of tourism. Each of these campaigns began with a public tender for campaign concept that drew imaginative ideas from numerous BiH marketing, media, and design companies. In both cases CCA organized representative commissions to select the winners, who were then awarded contracts to design the campaign materials – print, billboard, video, and radio. CCA also organized broad-based co-funding of media advertising costs by campaign collaborators.

- **"Tourism Enriches" Campaign:** Implemented over the Feb-Dec 2006 period, this first-ever such campaign adopted the UN World Tourism Organization's worldwide "tourism enriches" theme, adapting it to the BiH environment. The basic message was the value of tourism as a source of economic growth and employment to the domestic economy. CCA drew on UNWTO technical resources, which had successfully co-sponsored the campaign in other countries. The campaign included a journalists contest to encourage media reporting on the BiH tourism economy.
- **"Clean is Beautiful" Campaign:** The strategy worked out with stakeholders was to follow a campaign for basic tourism with one that encouraged improvement of the tourism environment. Surveys after the initial campaign indicated that littering was considered by citizens to be one of the greatest obstacles to tourism development. CCA therefore supported this follow-up campaign focused on reduction of litter and recycling, which took place over March-July 2008 through all media channels.

Co-sponsors of these campaigns were the BiH Ministry for Foreign Trade & Economic Relations, the FBiH Ministry of Trade & Tourism, the RS Ministry of Economy & Environment, the tourism associations of BiH, FBiH, and the RS, the public television networks BHT, RTRS, and FTV, and the private sector participants BiHPAK (an association of major food products packagers, such as Coca-Cola and Sarajevo Breweries), HVB Bank, Telecom RS, and Mercator.

Activity Results:

Qualitative:

- According to public opinion surveys commissioned by CCA prior to and after the "Tourism Campaign", the proportion of respondents that rated tourism sector as the most promising of all sectors in terms of economic growth potential doubled, to one third of the BiH public.

- Based on analysis of newspaper and television coverage, there were at least twice as many stories devoted to tourism in the calendar quarter following the Tourism Enriches campaign than in the same calendar quarter a year earlier. Based on anecdotal observation, media coverage of tourism is probably four times higher in 2008 than in 2004 when the CCA project started.
- As a result of the campaign, CCA received the 2007 “Tourism Gold Rose” award presented by the main local television program covering BiH tourism as the organization that had made the greatest contribution to tourism development in BiH.
- The “Clean is Beautiful” campaign encouraged similar campaigns and cleanup activities all over BiH, by public waste disposal companies in all of the major cities, by NGOs and business associations, by schools and municipalities. It prompted increased focus on the need for more sanitary landfills and on the critical importance of recycling.
- The campaign publicized a pre-campaign survey showing that two-thirds of the public were dissatisfied with the cleanliness of the environment, and that over 80% viewed this as an obstacle to tourism development.
- BiH still has a long way to go in achieving litter-free urban and rural environments, but the “Clean is Beautiful” campaign took the critical first step followed by all other countries who have attacked this problem. The campaign is expected to be carried forward over a multiyear timeframe by collaborators.

Quantitative:

- Over the course of the CCA project, budgets of the three ministries most responsible for tourism (one at the BiH level and two at the entities level) increased their funding of tourism development from less than KM 3 million in 2004 to over KM 24 million in 2008.

These results are directly attributable in substantial degree to CCA-supported public awareness activities.

Summary of Impact:

From its position as one of the world’s lowest-ranked countries in terms of tourism prioritization, BiH saw its budgetary resources devoted to tourism development grow by a factor of eight during the term of the CCA project. No tourism ministries even existed prior to the project; now both entities have such ministries the BiH government has a dedicated assistant minister for tourism, and the BiH and entity governments ranked tourism as one of the country’s top three economic growth sectors by project end. Tourism was not widely seen as having serious potential for employment; now at least one-third of the public think it has the *most* growth potential of any other economic sector in BiH. This revolution in public perception and government support was largely the result of the public awareness impact of the USAID investment in CCA, and overcame a major threat to the competitiveness of BiH tourism.